

# ***Long-term Liabilities for Retired Employee Health Benefits***

**House Select Committee on Legacy Costs  
from the State Health Plan, Pensions, and ESC**

**October 16, 2012**



**FISCAL RESEARCH DIVISION**  
A Staff Agency of the North Carolina General Assembly

# Outline of Presentation

- 1) Benefits Overview**
- 2) Financial Status**
- 3) Funding Projections**
- 4) Comparison to Other Employers**

# Benefits Overview

- **Most retired State employees pay premiums of \$0 to \$23 per month to participate in the State Health Plan \***
- **Retiree's portion of the premium represents at most 5% of the total premium paid by the State and the retiree**
- **Retiree pays the full stated premium for dependent coverage if retiree elects to cover dependents**

**\* Those hired on or after October 1, 2006 will pay a much larger premium if they retire with less than 20 years of service, but they constitute a small fraction of current retirees.**

# Benefits Overview

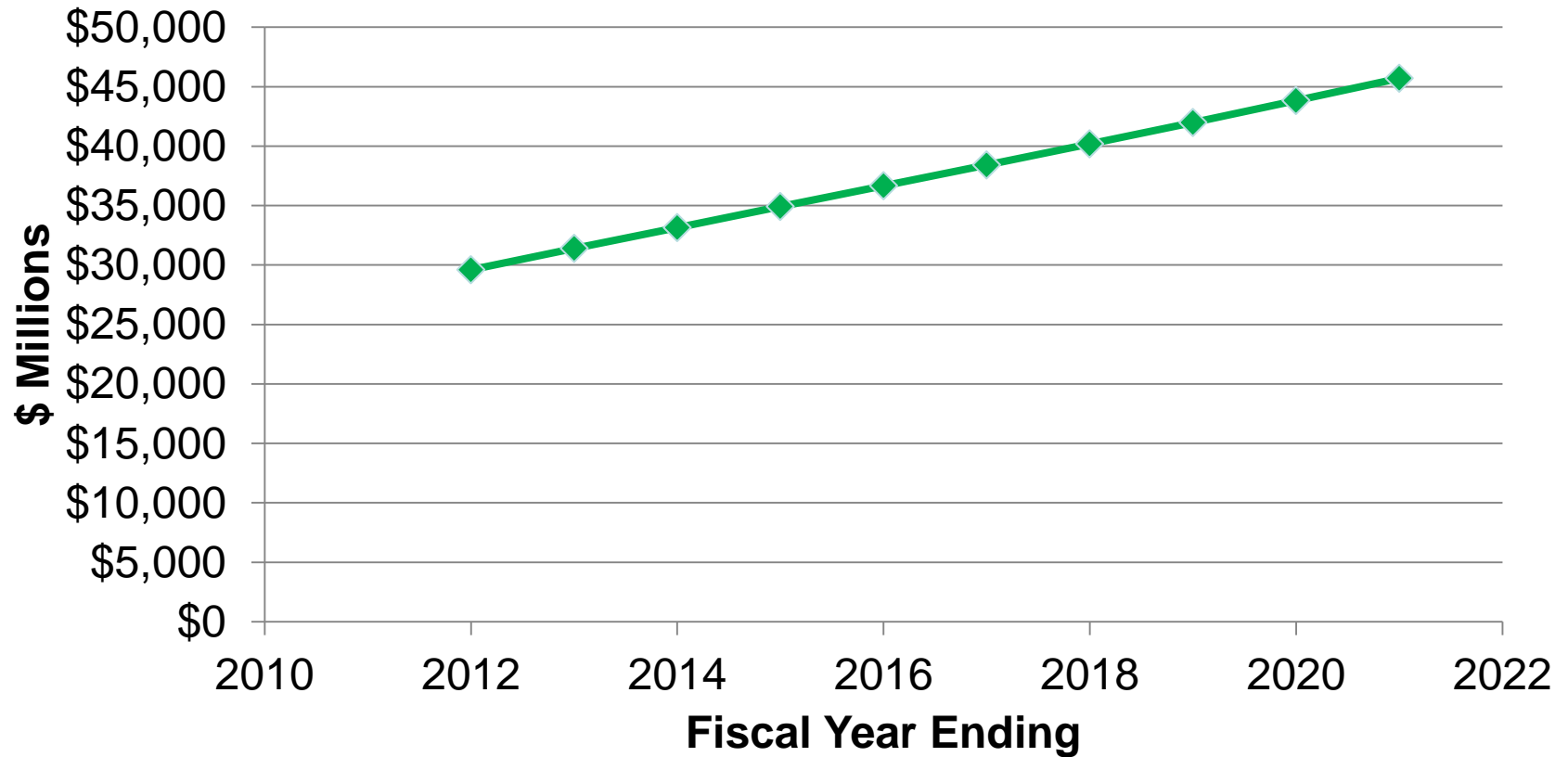
- **When the retiree becomes eligible for Medicare, the State Health Plan coverage becomes secondary and the retiree is expected to enroll in Medicare Parts A and B, but not D**
- **Services covered and network of providers are comparable to those in plans typically provided to active employees by large public and private employers**
- **Out-of-pocket requirements are somewhat higher than average among large employers**

# Financial Status

Measure	Value at Dec 31, 2011
Accrued Liability for Active Employees (pro-rated share of total value of future benefits)	\$16,709 Million
Accrued Liability for Retired and Terminated Employees	<u>\$13,630 Million</u>
Total Accrued Liability	\$30,339 Million
Assets	<u>- \$729 Million</u>
Unfunded Liability	\$29,610 Million

# Financial Status

## Unfunded Accrued Liability



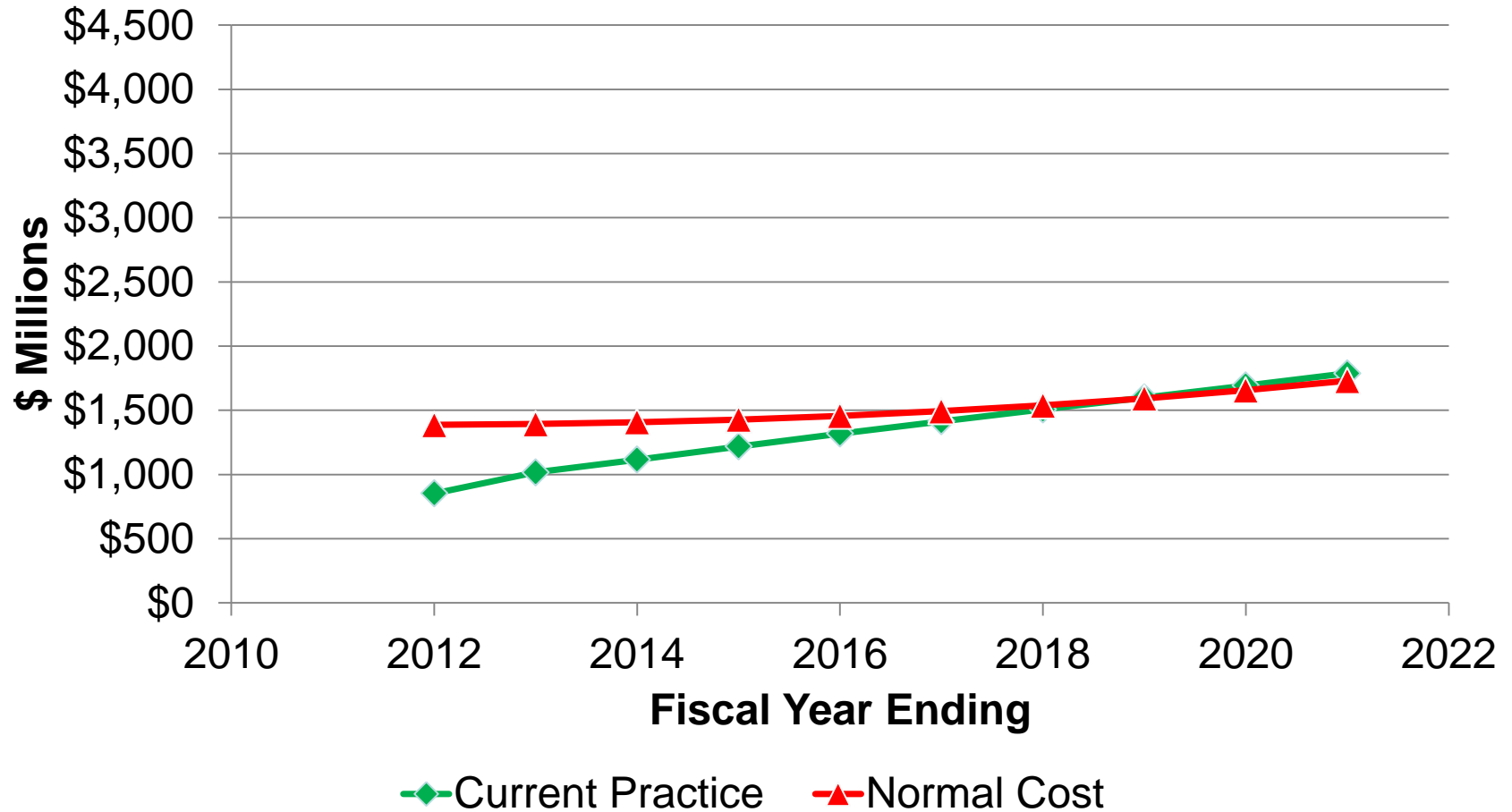
Assumes current contribution practice and benefits package.

# Funding Projections

## **Current contribution practice:**

- Current contribution for retiree medical benefits is set in the Appropriations Act**
- Usually enough to pay claims and administrative expenses for current retirees plus a small cushion**

# Funding Projections



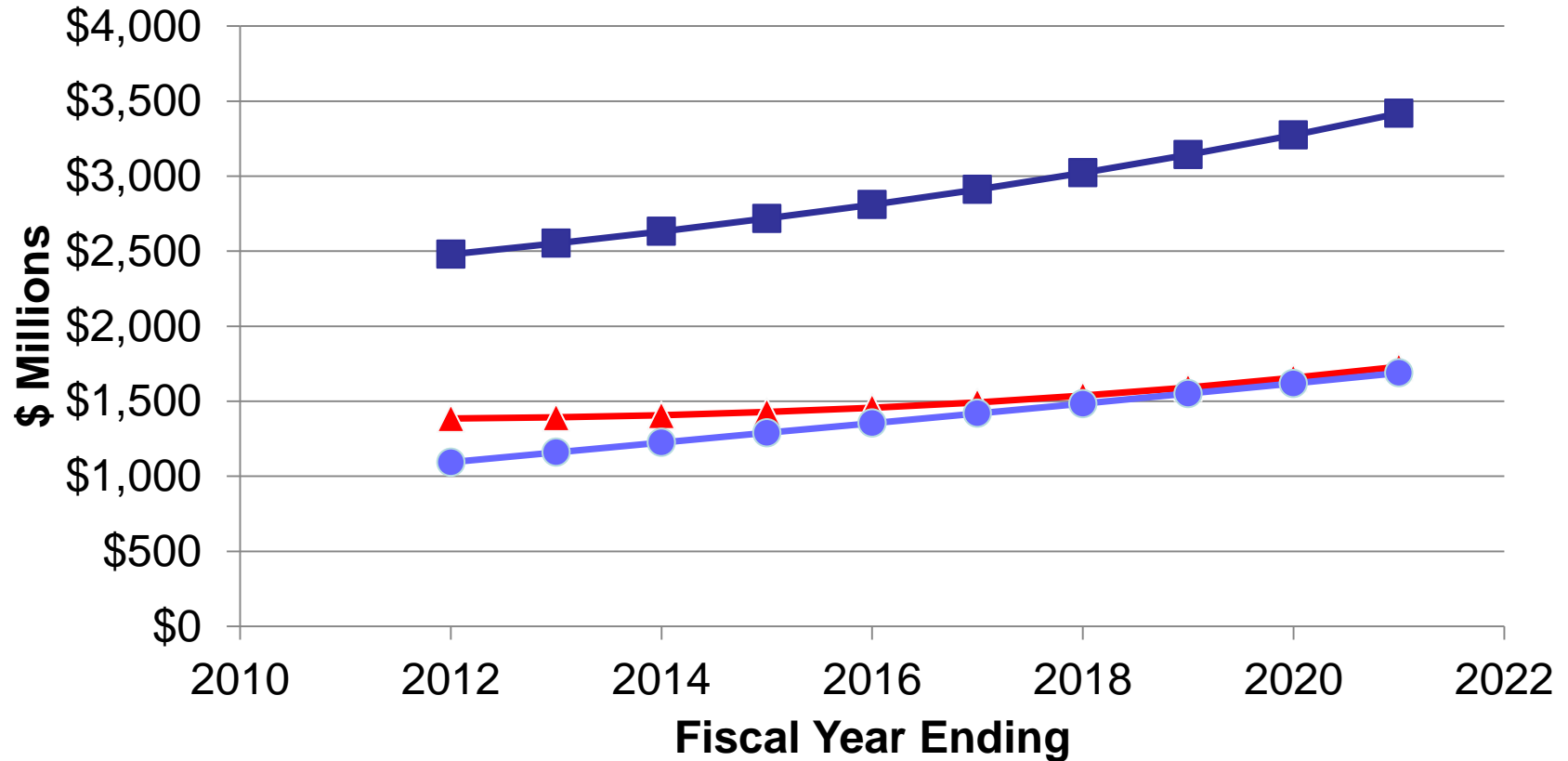


# Funding Projections

## Annual Required Contribution:

- **Amount calculated by actuary under government accounting standards (GASB 43/45)**
- **Sum of:**
  - **Normal Cost:** amount to pay for benefits accrued in current year by active employees
  - **Amortization of Unfunded Liability:** amount to pay off unfunded liability over 30 years

# Funding Projections



▲ Normal Cost    ● UAL Amortization    ■ Annual Required Contribution

Annual Required Contribution assumes current contribution practice and benefits package.

# Comparison to Other Employers

## Other States

- All 50 states offer retiree medical benefits to at least some employees
- Differences are mostly in:
  - Who is eligible
  - How coverage changes upon Medicare eligibility
  - Share of premium paid by retiree
- N.C.'s per capita unfunded liability is 9<sup>th</sup> highest in the U.S.
- About 70% of states require more than a nominal premium from the retiree
- Few states have set aside significant assets to pay future benefits

# Comparison to Other Employers

## Neighboring States - Examples

### – South Carolina:

- Retirees hired before 2008 are eligible for full employer subsidy with 10 years of service.
- Employee-only premium is \$10 per month in S.C.'s Savings Plan and \$98 per month in S.C.'s Standard Plan.
- Per capita unfunded accrued liability is only slightly smaller than N.C.'s.

### – Virginia:

- State provides premium subsidy of \$4 per month per year of service, retiree pays the remainder of the premium.
- Per capita unfunded accrued liability is less than 10% of N.C.'s.

# Comparison to Other Employers

## Private Sector

- In 2012, 25% of large firms and 4% of small firms that offered medical benefits to employees also offered them to retirees
- In 1988, 66% of large firms offered retiree medical benefits
- Of those that do offer retiree medical, over 40% require retiree to pay the full premium. Another 30% have capped employer contribution at a fixed dollar amount.
- Number of employers offering retiree medical may decline further in 2014 if everyone is guaranteed access to coverage through exchanges, although some might still provide credits to purchase insurance
- Few companies have set aside significant assets to pay future benefits

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